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ABSTRACT

The objective of this paper is to draw upon available research in welfare dynamics to answer a set of questions regarding the use of public assistance. First, the length and pattern of dependency of welfare recipients are considered, to determine the distribution of caseloads between short term and chronic users of welfare. Second, the welfare decision is described, in order to find the major factors which cause a family to turn to public assistance. (This question also addresses the reasons why a family leaves the rolls, and what impact program features have on the welfare decision.) Third, the levels and sources of income for welfare families are investigated, to ascertain how much income welfare recipients receive from nonwelfare sources. Finally, the impact of job training and employment programs on the welfare decision are assessed in order to indicate the effect work programs would have on improving chances for nonsubsidized employment and reducing the welfare rolls. The long term effects of dependency on family behavior are considered and the implications of research on caseload dynamics for welfare reform are discussed. (Author/AM)

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THE DYNAMICS OF WELFARE DEPENDENCY: A SURVEY

David W. Lyon

December 1976

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PREFACE

This paper was prepared for the Welfare Policy Project of The Ford Foundation and The Institute for Policy Sciences and Public Affairs at Duke University. A slightly revised version of the paper will be included in a forthcoming book comprised of papers prepared especially for the project.

Members of an advisory committee convened by The Ford Foundation provided valuable comments on the first draft of the paper. Patricia Fleischauer provided assistance in reviewing literature on labor supply response to welfare programs, and Martin Rein forwarded early findings on his study of income dynamics for the welfare poor. Detailed reviews of the first draft were received from John Bayne, John Korbel, Frank Levy, and Michael Wiseman. This version has benefited from all of their efforts.

SUMMARY

OBJECTIVES OF PAPER

The objective of this paper is to draw upon available research in welfare dynamics to answer a set of specific questions regarding the use of public assistance. We take stock of what we know and, by exclusion, what we don't know about the use of welfare. The questions raised are central to the design of alternative income maintenance systems. First, we look at *length and pattern of dependency* and answer the question: how is the caseload distributed between short-term and chronic users of welfare? Second, we describe the *welfare decision* and answer the questions: what are the major factors that bring a family to turn to public assistance; what are the reasons a family leaves the rolls; and what impact do program features have on the welfare decision? Third, we investigate *levels and sources of income* for welfare families and answer the question: how much income from nonwelfare sources do welfare recipients have over time? We assess the impact of *job training and employment* programs on the welfare decision and attempt to answer the question: what effect would work programs have on improving chances for nonsubsidized employment and reducing the welfare rolls? Finally, we look at the long-term effects of dependency on family behavior and discuss the implications of research on caseload dynamics for welfare reform.

ORIGINS OF RESEARCH ON WELFARE DYNAMICS

- Caseload forecasting for federal, state, and local government welfare agencies.
- Experimental studies of work incentives and income guarantees.
- Studies of welfare families over time, identifying length of dependency, income sources, and impact of government programs on the welfare decision.
- This review emphasizes research on the AFDC and general assistance programs, drawing upon analysis of caseload behavior at the local, state, and federal levels.

LENGTH OF DEPENDENCY

- The existing welfare system provides benefits that greatly exceed incomes available from full-time employment in minimum wage jobs and at some earnings levels tax rates on multiple benefits could be near or in excess of 100 percent.

- Receipt of public assistance is not a permament condition for a majority of families on the rolls; most cases stay on the rolls for less than three years; and, the average stay is between two and three years in duration. (Page 5.)

- Three types of caseload samples have been used to measure length of dependency: point-in-time, all cases ever on welfare, and opening cohorts. Each gives a different profile of the duration of stay and has a different purpose for policy analysts. (Page 5.)

- Over 60 percent of cases on the rolls at a point-in-time will have long-term continuous dependency (three years or more): less than 10 percent of all cases on the rolls over a six year horizon will be long-term cases; and a third of all cases in an opening cohort will have long-term dependency. Before conclusions are drawn from studies of welfare dynamics the characteristics of the caseload sample must be known. (Page 8.)

- Patterns of welfare dependency suggest high levels of caseload turnover. Over half of the nearly 1,000,000 cases on welfare in New York City from 1967 to 1972 were simply replacing a case that had been on the rolls but left permanently. (Page 12.)

THE WELFARE DECISION

- *Benefit Levels vs. Wages.* Findings support the alternative income hypothesis--as benefit levels or the benefit/wage ratios rise, case openings, applications, and welfare participation increase and employment rates decrease. (Page 14.)

- *Benefit-loss Rates.* Higher benefit-loss rates result in less work effort; lower rates result in more work effort. Lower benefit-loss rates tend to result in more mothers (AFDC) working rather than an increase in hours worked. (Page 16.)

Policy variables like the benefit-loss rate are not likely to have a big effect in moving families off the rolls. The mean employment rate--18 percent--is so low that big percentage changes in work effort do not change the fact that most AFDC mothers do not work. (Page 16.)

Work incentives are likely to increase welfare costs because of higher administrative costs or, higher benefits for mothers that already work. (Page 16.)

Lags in reporting income, and caseworker discretion in counting deductible income, results in real benefit-loss rates that are lower than the nominal rate of 67 percent. (Page 17.)

- *Multiple benefits.* The AFDC grant is only 55 percent of the total welfare and nonwelfare income received by dependent families in New York City, Michigan, and California. Eighty-three percent of all AFDC cases in New York City receive cash and in-kind benefits at a value higher than the poverty line, and 95 percent have multiple benefit incomes (food stamps, Medicaid, shelter allowances, child care, nonwelfare income, and the basic AFDC grant) higher than that forthcoming from a full-time minimum wage job without government supplements. (Page 18.)

Short-term cases had much higher levels of Medicaid-paid health care than long-term cases. Much of the movement onto welfare is caused by demand for health care not covered by private insurance plans. Welfare may mask a large number of families in need of low-cost health insurance rather than cash assistance. (Page 18.)

- *Employment Opportunities.* The job market has a measurable effect on the welfare decision in spite of widespread concern that public assistance is a system quite apart from the ups and downs of the national economy. (Page 20.)

The explosion of the AFDC caseload during the 1960s when the national economy was healthy was related primarily to factors other than changes in employment opportunities.

- *Migration.* Rather than being a direct reason for interregional migration, the welfare system enhances the attractiveness of regions

with high wage levels thereby acting as an insurance against the unavailability of jobs. (Page 21.)

The migration decision seems to be shaped primarily by regional variations in labor market conditions, and differences in state AFDC benefit levels have only a minor influence on the residential location decision of poor families.

- *Family Composition and Desertion.* Welfare benefits have a modest influence on the proportion of nonwhite women who head families with children.

Reform of the welfare system is not likely to dramatically reduce the trend toward female-headed families which has far broader origins than the availability of public assistance.

- *Attitudes Toward Dependency.* Growth of the AFDC rolls during the 1960s resulted primarily from increased participation rates, and secondarily from increased grant levels.

Participation rates increased because of an increased knowledge about the welfare system combined with a legitimatization of dependency, both fostered by the welfare rights movement.

A similar change in attitude might greatly increase participation and caseload size for the AFDC-Unemployed Fathers program. Currently, the participation rates are low for this program. Because attitudes of families eligible for AFDC-UF may be highly sensitive to the source of benefits and means for enforcement of eligibility rules, one new policy option may be considerably more costly than another depending upon the organization of the program administration.

- *Administrative Factors.* Administrative discretion causes an important part of the dynamic behavior found in the AFDC caseload. The short-run forecasting of caseloads is confounded by sudden shifts in case openings and closings related to changing administrative procedures. However, it does not offset the evidence that welfare dependency is essentially an economic decision. (Page 31.)

EMPLOYABILITY AND INCOME

- Employability is an elusive concept because objective measures do not fully reflect either the potential or motivation of welfare families for finding work.
- Far more families on the welfare rolls are employable and receive earnings from employment over periods of one or two years or more than is reflected in point-in-time samples of the caseload. (Page 35.)
- The public cost of day care and related work expenses is so high for many welfare mothers that they may actually earn less than it takes to keep them employed.
- Earnings play a major role in the long-term income package of families ever on welfare, even though earnings are less important at the time welfare is received. (Page 35.)
- There is little difference between the income package of female-headed families who have been on welfare, and the package of those who have never been on welfare. (Page 35.)
- The income and behavior of welfare families must be tracked over time to understand how welfare fits into an overall package of family income.

EMPLOYMENT AND TRAINING PROGRAMS

- Little evidence that job training and employment programs have been the source of the dynamic patterns uncovered in studies of the welfare population.
- Employment programs may, at best, decrease the level of public assistance payments while the duration of stay is unaffected. (Page 37.)

CASE BEHAVIOR AND LENGTH OF DEPENDENCY

- Welfare recipients may become used to dependency and more resistent to leaving the longer they are on the rolls. This phenomenon has been hypothesized as a "settling-in" effect.
- Some findings are consistent with the settling-in hypothesis, but also with other hypotheses about the effect of time on dependency.

- If settling-in occurs, it could result in the need for a continuation of stringent work and income eligibility tests under any welfare reform option--from an incremental to a full guaranteed income approach.

- There is no unambiguous evidence on whether settling-in actually occurs, and what, if any, policy options are necessary to offset its effects.

IMPLICATIONS FOR WELFARE POLICY

- Modifications to means-tested programs are likely to produce responses by eligible families consistent with behavior uncovered by research on the existing system.

- It cannot be accurately predicted whether labor force withdrawal and/or work disincentives would be greater under a guaranteed income plan than under AFDC--the impact of a guaranteed income can only be partially estimated from existing research on welfare dynamics.

- In spite of the many inefficiencies and inequities contained in our current income support system, most families use the welfare system as intended--a temporary income support during periods of unemployment or loss of normal income support.

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INTRODUCTION

The picture of welfare dependency that has emerged since research on the welfare decision began in earnest over ten years ago is both clearer and more complex than the common image of a permanent welfare class. There is substantial evidence that families treat the welfare decision in an economically rational fashion--as the dollar value of benefits increase more families will choose welfare over their available income sources; and, as benefits are taxed away at higher rates there is less work effort on the part of case members. Analysis of welfare caseload dynamics (behavior of welfare families over time), however, has shown that a number of factors in addition to benefit levels and tax rates also influence the size of the welfare rolls. Composition of a family strongly influences the length of a welfare stay, for example. Intact households (AFDC-UF and general assistance cases) tend to have shorter welfare stays than female-headed families (AFDC cases), and the length of stay increases with increasing numbers of children in a case. Changes in administrative policies have also been found to sharply change movement off and on the rolls, and therefore the average length of stay. The stringency of eligibility controls, implementation of employment reporting requirements, and changes in recertification procedures have all been documented to have significant effects on size of the welfare caseload. Finally, the attitude towards welfare of eligible families has affected the decision to choose welfare, and consequently, the size of the rolls.

The objective of this paper is to draw upon available research in welfare dynamics to answer a set of specific questions regarding the use of public assistance. We take stock of what we know and, by exclusion, what we don't know about the use of welfare. The questions raised are central to the design of alternative income maintenance systems. First, we look at *length and pattern of dependency* and answer the question: how is the caseload distributed between short-term and chronic users of welfare? Second, we describe the *welfare decision* and answer the questions: what are the major factors that bring a family to turn to public assistance; what are the reasons a family leaves the rolls; and what impact do program features have on the

welfare decision? Third, we investigate *levels and sources of income* for welfare families and answer the question: how much income from nonwelfare sources do welfare recipients have over time? We assess the impact of *job training and employment* programs on the welfare decision and attempt to answer the question: what effect would work programs have on improving chances for nonsubsidized employment and reducing the welfare rolls? Finally, we look at the long-term effects of dependency on family behavior and discuss the implications of research on caseload dynamics for welfare reform.

ORIGINS OF RESEARCH ON WELFARE DYNAMICS

Interest in the dynamics of welfare dependency has stemmed from three quite different, but equally pragmatic, pressures to identify the effects of welfare policy and economic conditions on caseload growth. The first pressure was the desire by welfare administrators both at the federal, state, and local levels to improve their forecasts of the caseload for budget purposes. A number of caseload modeling projects were started to see if a careful sorting out of economic and policy factors would result in better predictions than resulted from "best guesses" by agency personnel. In general, the forecasting models do not predict much better than simple trend techniques combined with good judgment, but the models have been very useful in sorting out the separate contributions of benefit levels, job opportunities, and policy changes to caseload growth.

A second area of research came as a response to proposals for simplifying the welfare system with a guaranteed annual income for all families. Congressional critics of a simplified system argued that productivity would be seriously and permanently dampened, with the result that many families might never feel the need to work again. Economists did not argue whether there might be some work disincentives--clearly there would be some--but, they set out to see how much work effort declined when families received cash transfers of different amounts. The most notable study--the New Jersey Income Maintenance Experiment--was funded by the federal Office of Economic Opportunity and was designed to measure how work effort changed in response to different benefit levels and benefit-loss rates. For the first time

low-income families were "tracked" over time to see how they responded to a regular flow of unearned income supplied by the government.

The third area of research on welfare dynamics stemmed from a lack of information on how families made use of welfare benefits over time. A substantial number of case openings and closings is recorded in any one month, but there is little information on how many of the cases closed were the same ones that opened in the same or subsequent months. In a broader context, policy analysts wanted to know how groups of low-income families use welfare and related transfer programs to supplement earnings; how frequently they use welfare over time; and what portion of annual income comes from welfare. The major policy question was whether the same families make recurring use of welfare without any other income sources, or whether welfare is more of a temporary, "backup" source of income when a family falls on hard times.

This survey draws upon research carried out in these three areas of investigation. We concentrate primarily on the Aid to Families with Dependent Children (AFDC) program because it's the largest national program and it has been the focus of most research efforts.[1] Reference is made to general assistance programs when appropriate.

Our main objective is to review what is known about the dynamics of the existing welfare system and what existing patterns of dependency tell us about how families might respond to modifications of the current system. We frequently draw upon research studies of welfare systems in New York City, California, and other localities, in addition to studies of the national caseload. The reason is that very little information is available to researchers on the behavior of welfare families over time, and that which is available tends to have been especially prepared

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[1]We have not incorporated detailed findings from the negative income tax experiments for two reasons. First, findings from the New Jersey experiment regarding family response to benefit levels and tax rates are generally consistent with the behavior found for families in the AFDC program, and the experimental findings are more broadly known than the research reviewed here on welfare dynamics.

for studies of city or state systems. A particularly rich set of findings seems to be available for New York City and California--two of the largest local caseloads in the country. Whenever possible, we have compared the local findings with studies that used national data bases. On specific questions where comparisons are possible local and national data give similar profiles. Where comparisons were not possible the studies of local systems should be very suggestive of patterns at the national level.

There are a number of studies listed in the bibliography that are not referenced in the text. Many of these influenced our thinking and the research designs of the studies discussed, but it was simply not possible to draw them all into the presentation.

LENGTH OF DEPENDENCY

Concern that public assistance will create a permanently dependent population has been a criticism of both the existing welfare system and of proposals for reform. The concern is based on two arguments. First, that benefits are or will be so high that many families could have higher incomes from public assistance programs than from the paycheck typically accompanying low-wage jobs. Second, once on welfare there is little incentive to turn to work if one dollar of welfare benefits is taken away every time earnings increase by one dollar. There is substantial evidence that the existing welfare system in some states does provide benefits that greatly exceed incomes available from full-time employment in minimum-wage jobs, and that at some earnings levels tax rates on multiple welfare benefits could be near or in excess of 100 percent. (See Lyon, et al., 1976; Smith, 1976; California-DBP, 1975; Aaron, 1973; and Hausman, 1975.) However, research on the dynamics of welfare dependency does not support the concern that receipt of public assistance is a permanent condition for a majority of families on the rolls. In contrast, researchers have found that most welfare cases stay on the rolls for less than

three years; that the average stay is between two to three years in duration; and that there are far more cases on the rolls over a five or six year period than are reflected in monthly welfare statistics.

A common means for measuring length of dependency is to ask how long a sample of families drawn from the monthly caseload has been on the rolls since their most recent opening. The national survey of the AFDC caseload in January 1973 documents that two years is the median length of stay since the family interviewed last opened onto the rolls. (See Table 1.) There were more cases on the rolls for one year or less--30 percent--than there had been for more than five years--18 percent. Two comparable samples of AFDC welfare cases for New York City show a somewhat smaller proportion of short-term cases and more long-term casee than the national sample. Both New York City data files (from separate studies) show that the median duration of stay is about three years or one year greater than the national median. None of the three studies suggest that most AFDC cases have a permanent attachment to the rolls.

The Effect of Sample Time Frames

The profiles in Table 1, however, can be misleading. The distributions of length-of-stay are for a point-in-time (month) sample and, they do not capture all previous episodes of dependency. Welfare researchers have shown that point-in-time samples underrepresent short-term cases and that large portions of the caseload have intermittent rather than uninterrupted episodes of dependency.[1] Dramatic evidence of the impact sample time frames have on the analysis of welfare dynamics was presented by Rydell, et al. (1974). They compare the distribution of welfare histories over a six-year period from 1967 to 1972 for cases on the rolls at a point-in-time (December 1969) and for all separate

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[1] For a discussion of the effect of time-frame censoring on the analysis of welfare dynamics, see J. R. Hosek's presentation in Appendix A of R-2002-HEW, *Multiple Welfare Benefits in New York City*, by D. W. Lyon, et al., The Rand Corporation, 1976, p. 111.

Table 1

AFDC CASES BY TIME ON WELFARE SINCE MOST RECENT OPENING, UNITED STATES (1973), AND NEW YORK CITY (1971 AND 1972)

Time on Welfare Since Most Recent Opening	Percentage of All Cases		
	United States January 1973	New York City Ostow/Dutka September 1971	New York City Rand/Rydell December 1972
Less than six months	17.3	6.0	20.4
Six months to one year	12.9	9.0	
1-2 years	19.1	16.0	18.8
2-3 years	15.4	12.0	13.7
3-4 years	9.7	27.0	9.6
4-5 years	7.2		10.0
Over 5 years	18.4	30.0	27.5
Total	100.0	100.0	100.0
Median years since most recent opening	2.0	3.25	2.78
Number of cases in sample	31,000	873	249,000

SOURCE: U.S. Department of Health, Education, and Welfare, *Findings of the 1973 AFDC Study: Part I*, National Center for Social Statistics, NCSS Report AFDC-1 (73), June 1974, p. 80; M. Ostow and A. B. Dutka, *Work and Welfare in New York City*, Johns Hopkins Press, Baltimore, 1975, Table 3.1, p. 27; C. P. Rydell, et al., *Welfare Caseload Dynamics in New York City*, The Rand Corporation, 1974, Table 2.13.

cases on the rolls over the six year period. The analysis is for New York City welfare cases. Only 3 percent of the point-in-time sample were on the rolls less than one year, whereas nearly 50 percent of *all cases on* over the six years were on less than one year. (See Table 2.) In both caseload universes over 20 percent of the cases moved on and off the rolls intermittently over the six year study period, all other cases had continuous dependency. So a longer time "window" on welfare dependency than one month suggests that there is very little true permanent dependency; only 6 percent of the "all cases on" universe were on the rolls continuously for three or more years compared to 63 percent for the same group in the point-in-time universe.

The choice of a caseload universe clearly has an effect on conclusions drawn from research on welfare dependency. Point-in-time samples are the most frequently used simply because they are the easiest to draw from case records, yet long-term cases are larger and tend to receive lower per capita welfare benefits than short-term cases. Research findings from point-in-time samples will give only one view of employment experience, income sources, length-of-stay, and responsiveness to work incentives.[1]

Despite the above shortcomings, there are two reasons point-in-time samples are used in the analysis of welfare dependency. First, administrators and policy planners frequently want to know the characteristics of cases on the rolls "right now." In any one month most expenditures are made on cash payments to long-term cases, so a point-in-time profile of dependency accurately portrays how the budget is allocated. Second, very little data is available on dependency patterns for all cases on the rolls over long periods of time. No national statistics are maintained on case histories, and local social service agencies usually purge their machine-readable records of closed cases a month or two after payments are terminated. Two notable longitudinal data files of welfare cases--one for New York City (Rydell, et al., 1974) and another for

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[1]For a presentation of the differences between long-term and short-term cases, see Rydell, et al., 1974; and Lyon, et al., 1976.

Table 2

EFFECT OF DIFFERENT TIME FRAMES ON MEASURE OF WELFARE DEPENDENCY, NEW YORK CITY, 1967-1972

Welfare History 1967-1972	Time Frame of Sample		
	All Cases on Welfare (1967-1972)	Cases on Welfare at Point-in-Time (December 1969)	Cases in an Opening Cohort (February 1967 to June 1967)
	Percentage of All Cases		
Short-term continuous (Less than one year)	49.7	2.9	17.4
Intermediate-term continuous (One to three years)	23.4	8.9	10.8
Long-term continuous (Over three years)	5.7	63.2	33.3
Multiple-term	21.2	25.0	38.5
Short (Less than one year)	--	0.8	8.6
Intermediate (One to three years)	--	5.4	10.5
Long (Over three years)	--	18.8	19.4
Total	100.0	100.0	100.0
Number of cases	390,000	391,000	65,900

SOURCE: C. P. Rydell, et al., 1974, Table 2.5 and 2.6.

Alameda County, California (Wiseman, 1976)--involved costly file sampling, searches, and processing for even the most rudimentary case information. A number of states (among them Illinois, Michigan, and California) are just beginning to keep complete case history records of all cases on the rolls including cases that opened for only brief periods of time.

One survey of income dynamics, the Panel Study of Income Dynamics (PSID), carried out annually by the University of Michigan's Institute for Social Research provides the best picture yet available of dynamics for the national welfare caseload. Martin Rein used the PSID sample of 5,000 families to answer the question: "Is there a welfare class?" (See Rein, 1976.) He measured the duration of stay for every female-headed family that ever received welfare during the seven year period from 1967 to 1973.[1] Like Rydell, et al., for New York City he found far fewer long-term cases than is uncovered in a point-in-time sample. Rein found 26 percent of those families ever receiving welfare to be long-term stayers with continuous dependency, and another 8 percent of long-term cases with intermittent dependency. (See Table 3.) In total, the chronically dependent cases were one-third of all those families who had received welfare during the period. Nearly 40 percent of the sample had only short-term dependency of one year or less. Both the Rein and Rydell, et al., studies indicate that welfare is a "permanent" or chronic condition for a portion of the caseload, and that the portion is between one-third and one-tenth of all cases receiving assistance over a long time.[2]

A third approach to measuring the duration of welfare dependency is to track an "opening cohort" of cases over time. This universe of cases can provide answers to the question: "how long will welfare cases stay on the rolls that open onto the rolls today?" This approach is equivalent, for example, to assessing the length of stay of all patients admitted into a hospital on a given day--it controls for

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[1] Rein's female-headed families do not fully exhaust the AFDC caseload because he analyzes only women between 25 and 55 years of age. The 1973 AFDC Survey reports that half of the mothers on AFDC were less than age 30.

[2] The "all cases on" approach to measuring length of stay is complicated by an "end point" problem. Cases closing at the beginning of the sample

Table 3

DURATION AND PATTERN OF WELFARE DEPENDENCY,
THE U.S. AND NEW YORK CITY,
1967-1972/73

Welfare History	Rein-United States Families Ever on Welfare with Head 18 to 55 Years Old 1967-1973 (%)	Rand/Rydell-New York City Separate Cases on Welfare, All Categories of Assistance, 1967-1972 (%)
Short-term continuous (One year or less)	38.0	49.7
Intermediate-term continuous (One to three years)	18.3	23.4
Long-term continuous (Over three years)	26.1	5.7
Multiple-term	17.7	21.2
Intermediate	10.0	--
Long	7.7	--
Total	100.0	100.0
Number of cases in sample	748	390,000

SOURCES: M. Rein, "Is there a Welfare Class," mimeo, 1976, Table 2; C. P. Rydell, et al., *Welfare Caseload Dynamics in New York City*, The Rand Corporation, 1974, Table 2.5, p. 16.

NOTE: Rein data is for families only with head between 18 and 55 years of age taken from the Panel Study of Income Dynamics; Rand data is for both family cases and single-person cases, including recipients of AFDC; AFDC-UF; general assistance (Home Relief); Aid to the Aged, Blind, and Disabled. Long-term dependency in Rein data is for four or more years; more than three in the Rand/Rydell data.

changes in the composition of the caseload over time. Again, Rydell, et al. (1974), show the dramatic difference between the welfare histories of cases in an opening cohort and all cases on the rolls at a point-in-time. A cohort of cases opening onto the rolls between February and June of 1967 and tracked over the subsequent five and one-half years has fewer long-term cases and more short-term cases than the point-in-time universe. (See Table 2.) On the basis of the data in Table 2 for an opening cohort, a welfare administrator can say that of all cases opening onto the rolls in any five month period, 42 percent will be on the rolls for greater than three years, either continuously (33 percent) or intermittently (19 percent).

Rydell, et al., also calculated the length of time it takes for one-half of all cases opening at the same time (day or month) to close--a concept they call the half-life of a welfare case. They found that AFDC cases with two or more children have a half-life of two and one-half years; and those with only one child have a half-life of one and one-half years; with an average half-life of two years for all regular AFDC cases. As an alternative measure of length of dependency, a half-life of two years indicates further that the welfare caseload is not dominated by chronically dependent cases.

A study of the AFDC caseload in the State of California by Boskin and Nold (1975) tracks the history of 440 cases opening onto the rolls in January 1965 over the subsequent five years--1965 to 1970. They estimate the mean duration of stay on the rolls to be strongly related to race and expected wage facing the household head in the job market. Whites were on the rolls an average of one and one-half to two years during the five years, and nonwhites averaged between two and one-half to three and one-half years on the rolls over the period. Cases with heads facing a higher than minimum wage in the job market have stays roughly one year less than cases with heads facing a lower than minimum wage, regardless of color. The authors estimate the probability of entering and leaving welfare for different case types and the expected duration on welfare stay. Their estimates are

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time frame or opening at the end are counted as less than one year stays even though they might be the end or beginning of a long stay. Rydell, et al. (1974), partially solves the problem by excluding cases on in the beginning and ending months.

comparable to the actual mean duration over the five year period, except that nonwhites facing lower than minimum wage job opportunities are expected to average nearly five years per stay on the rolls.[1]

Caseload Turnover

The distribution of length-of-stay dependency suggests that there is a great deal of turnover in the welfare caseload. Rydell, et al., found that there were 992,000 separate cases on the rolls in New York City between 1967 and 1972. The highest monthly caseload in the six year period was 523,000 in September 1972, so there were nearly twice as many separate cases on welfare over the six years as there were in the month with the highest caseload. The authors conclude that "of the 992,000 cases on welfare in New York City from 1967 to 1972 ... 226,000 were on the rolls at the start of the period, 297,000 came from caseload growth during the period, and 469,000 resulted from permanent caseload turnover."[2] Permanent case turnover occurs when a closed case never returns to the rolls and is replaced by a case never before on welfare. Thus, over half of the 992,000 cases on the rolls in the six years were simply replacing a case that had been on the rolls but left permanently. This profile gives further evidence of the high level of movement on and off of the welfare rolls over time.

THE WELFARE DECISION

Substantial evidence that the welfare caseload undergoes a significant turnover of cases focused interest on identification of reasons for the welfare decision. An obvious reason is that families move onto welfare when they can benefit by doing so--when a sudden loss of earnings income or high expenses draw down the resources necessary to meet household needs. Critics of the welfare system have never been unwilling to accept the argument that welfare is, in principle, an economic decision, but a number of dramatic changes in the rolls during the last fifteen years suggested that something other than a simple

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[1] See Boskin and Nold (1975), Table 3.

[2] C. P. Rydell, et al. (1974), p. 44.

economic decision was controlling growth in the caseload. First there was the now infamous explosion of the rolls during the 1960s when the economy was strong. At a time when unemployment rates were low and the number of employed persons was reaching new highs, it did not make sense that welfare dependency was expanding at the same time. Second, there frequently were wild swings in the number of monthly case openings and closings that could not be easily related to changes in the economy or changes in welfare benefit levels.

Welfare researchers spent a good part of the late 1960s and early 1970s sorting out the various factors that account for changes in the rolls. They found that indeed indigent families were quite rational in making their decision between work and welfare, but that their movement on and off the rolls was affected as much by personal attitudes toward welfare and changing administrative policies as it was by the level of benefits and the benefit-loss rate built into the programs. The basic decision to choose or not choose welfare was quite rational within the rules of the game, but as it turned out the rules were frequently changed.

While considerable effort was being expended to show that the behavior of welfare recipients is consistent with the tenants of rational economic behavior, it also became clear that the same rationality might lead to periods of extended dependency simply because the AFDC program in combination with other income transfer programs actually provides numerous work disincentives. Until 1967 when the tax rate on earnings was lowered to 67 percent, AFDC recipients lost one dollar of benefits for every dollar they earned--an effective tax rate of 100 percent. In the Congressional debate that focused on the pros and cons of the negative income tax, it came to light that AFDC families who also benefit from food stamps, Medicaid, and housing subsidies could face tax rates as high as 120 percent on earnings under existing and proposed programs. The difficulty of lowering the combined tax rate on multiple program benefits was forcefully presented by Aaron (1974).

Other sorts of work disincentives were identified. Two of the more frequently cited were family dissolution and interregional migration. Real or feigned abandonment of a family by a father could result in greater family income than if the household were to remain intact; and higher welfare payments in heavily urbanized states might only encourage immigration of poor families to central cities already strapped with high unemployment.

We turn now to an overview of research on welfare dynamics that has identified factors entering into the welfare decision and measured the contributions of each to the growth of the rolls.

Economic Factors

Benefit Levels vs. Wages. A common test of the welfare decision as a rational economic choice is to compare potential benefit levels to wage levels from available jobs. Researchers have variously modeled changes in case openings, applications, and welfare participation and employment rates as a function of real benefit levels or the ratio of benefits to wages. After controlling for other factors, the studies generally support the alternative income hypothesis--as benefit levels or the benefit/wage ratio rise case openings, applications, and welfare participation increase and employment rates among welfare families decrease. There are too many models incorporating benefit levels in one form or another to review here, but an excellent survey of the welfare models in the context of caseload forecasting is contained in Abrahamse, et al., (1976).

There are two major conclusions that can be drawn from efforts to model the welfare decision as a choice between earnings from work or income from a welfare check. First, researchers have found the welfare decision difficult to model, and they have been appropriately cautious in stating their conclusions. The main reason is simply that there is not enough data to account for all the economic and administrative factors that enter into the welfare decision. Movement on and off the rolls is as much a function of changing supply of welfare (eligibility rule changes, work tests, and administrative stringency) as it is a function of demand for welfare given fixed benefit levels. Measuring the effect of benefits on the welfare decision requires that a wide

variety of supply factors be controlled for, and usually the data is not available to do so. As a consequence, benefit variables are very sensitive to changes in model specification. Nevertheless a majority of the models estimated to date reflect a significant role for benefit/wage variables in explaining caseload behavior.

The second conclusion is that there is a definite tendency for models to become more elaborate as nuances of the welfare decision are incorporated into the analysis; and as a corollary, quite different models seem to be required for different welfare jurisdictions. The more elaborate models become, the less accessible they are to the staff of welfare agencies for forecasting purposes, and the more care and feeding they require for updating and generating periodic forecasts. There is a formidable conflict between the desire of welfare administrators to know why the caseload is changing, and their need for periodic forecasts to use in annual budget estimates. Answers to the why question require researchers to develop more complicated models, while far simplier models may actually perform better in forecasting the caseload.

Sumrall, Bluestone, and others (1976) at the Social Welfare Regional Research Institute in Boston have concluded that quite different models may be required for different states and different regions of a state because of wide variations in recipient behavior and administrative policy. In effect, there does not seem to be a simple conceptual model of the welfare decision that can be uniformly applied to the welfare system. There are many systems (at least one for each state) and there may be more than one appropriate model to explain family behavior.

Benefit-Loss Rates. A number of studies of the AFDC program have measured the effect of benefit-loss rates on work effort of case members. The most notable studies include Hausman (1970); Appel (1972); Garfinkel and Orr (1974); and Williams (1975). The benefit-loss rate is the rate at which benefits are taken away as earnings increase, and higher rates are expected to result in less work effort by case members. The studies are fraught with the same specification problems discussed

above, but they too support the hypothesis that welfare families respond to benefit-loss rates in the expected way--higher rates, less work effort; lower rates, more work effort.

The nominal benefit-loss rate on earnings in the AFDC program dropped from 100 percent to 67 percent in 1967. Appel (1972) analyzed the employment rate of AFDC mothers in Michigan before and after the institution of the lower tax rate on earnings. He concluded that the employment rate increased significantly throughout the state and in some cases almost doubled. However, he found no increase in earned income for the average case, suggesting that the lower benefit-loss rate encouraged *more* mothers to take some employment but that there was no indication that mothers on average worked more hours. The net result was that "short-run costs to the taxpayer increased for employed mothers who received child care subsidies because the actual earnings were so low." (Appel, 1972.)

Garfinkel and Orr (1974), using a national data base for 1967, found that employment rates would increase by 7 percent for every 10 percent reduction in the benefit-loss rate. Furthermore, they found that the employment behavior of AFDC mothers is quite similar to that of married women estimated from numerous studies of labor force response. However, they concluded that policy variables like the benefit-loss rate are simply not likely to have a big effect in moving families off the rolls. The mean employment rate--18 percent--is so low that big percentage changes in work effort for this group simply do not change the fact that most AFDC mothers do not work. Combining a series of possible policy changes they state that "if one were to simultaneously decrease the guarantee by 40 percent, the tax rate by 35 percentage points, and aggregate unemployment by 1.5 percentage points; increase the levels of set-aside and deductions by $50.00 and the percentage of the caseload receiving rehabilitation services by 20 percent, and impose a work test in all states, our estimates imply that 50 percent of the AFDC mothers in a typical state would still not work." (Garfinkel and Orr, 1974, p. 283.) Like Appel, they also concluded that work incentives may actually increase welfare costs because of higher administrative costs or higher benefits for mothers that already work.

Two studies of benefit-loss rates under the AFDC program suggest that rates may actually be below their nominal level. Barr and Hall (1975) found that effective tax rates were below 100 percent before the policy change in 1967. Lags in reporting earnings and flexibility in defining deductibles both lead to benefit-loss rates closer to 50 or 40 percent or even lower than the nominal level of 100 percent effective before the 1967 policy changes. With the drop to a nominal level of 67 percent in 1967, it is likely that the effective rate is now even lower. R. Williams (1975) estimated real benefit reduction rates for a different sample than Barr and Hall and found much the same thing--real tax rates were far below the nominal rate of 100 percent. In the ten states sampled the rates were consistently below 50 percent.

The Barr-Hall and Williams findings suggest that administrative discretion is extremely important to the maintenance of work incentives for welfare families. In fact, the institution of a guaranteed income plan with a 50 percent benefit reduction rate without work expense deductions would probably result in greater work disincentives than welfare families currently face under the AFDC program.

Multiple Benefits. On the other hand, work incentives reflected in low AFDC benefit-loss rates are offset by additional welfare benefits that are income conditioned--food stamps, Medicaid, public housing, and day care. The combined receipt of benefits from these programs and AFDC have been shown to result in nominal benefit-loss rates in excess of 100 percent--a one dollar increase in earnings results in more than a dollar loss in either in-kind or cash welfare benefit. (See Aaron, 1973.) W. Williams (1975) suggests that high marginal tax rates among various welfare programs may have been the major cause of the defeat of the Nixon Family Assistance Plan, and indeed, had the consequences of multiple program benefits been thought through he notes that the administration might not have supported a negative income tax. There is no published measure of the *actual* marginal tax rate faced by AFDC families also receiving Medicaid, food stamps, and day care, but clearly once a family loses eligibility for welfare

in-kind benefits may be curtailed in addition.[1] Thus, it is likely that the work incentives built into the AFDC program are at least partially and may be fully offset by the existence of multiple program benefits.

The decision to turn to welfare and the duration of stay is likely to be affected not only by work disincentives, but also by the absolute level of benefits available from multiple program sources. A study by the Rand Corporation (Lyon, et al., 1976) of multiple benefit levels in New York City found that 83 percent of all AFDC cases received over $5,000 in cash and in-kind benefits during 1974; and that 95 percent of the cases were over an annual income ($4,200) that would be forthcoming from a job paying minimum wages.[2] A four person case averaged over $6,600. The benefits measured included the AFDC grant, food stamps, Medicaid-paid health care, shelter allowances, child care, and nonwelfare income. In total, the AFDC grant was found to be only 55 percent of the income available to the family. Clearly, the welfare decision is made in response to more than just the benefit levels and tax rates embedded in the AFDC program.

For example, the Rand study found that short-term and multiple-time cases had much higher levels of Medicaid-paid health care than cases on the rolls continuously for three years or more. The authors conclude that a good deal of the movement onto the rolls is caused by a demand for health care not covered by private insurance plans, and that welfare may mask a large number of families in need of health insurance more than income maintenance. In any event, it is clear that welfare dependency is very much tied up with short-run demand for health care, and that there have been no effective attempts to identify where the two systems overlap and where they should operate independently.

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[1] Shkuda (1976) found that many cases closed off the rolls fail to continue Medicaid-paid health care even though they are still eligible.

[2] A minimum wage job was used as a measure of what an AFDC mother might find in the job market compared to welfare income. In fact, some in-kind benefits are available to and used by many low-wage workers.

Employment Opportunities. An alternative view of the economics of the welfare decision is simply that unemployment creates a demand for welfare. Wage levels and benefit-loss rates have only a secondary effect if a family head is without a job and welfare is an available source of steady income. Most researchers have viewed unemployment as just one of a number of economic factors that explain changes in the caseload. In effect, unemployment is an approximation of the size of the pool of families eligible to apply for welfare, and increases or decreases in unemployment are expected to result in corresponding changes in the caseload. Aggregate unemployment rates or levels, however, had been found generally to be insignificant variables in models of the welfare caseload. Yap (1973), Saks (1974), and Rydell, et al., (1974) are among the studies that found either weak or no relationships between unemployment levels and the AFDC caseload.

The direct link between unemployment and the welfare decision seems to be strongest for the general assistance caseload. Kasper (1968) concluded that "...differences in labor market conditions rather than differences in the level of average welfare payments seem to be the major explanation of interstate variation in the proportion of the states' population receiving general assistance" (page 109). Rydell (1974) and Lyon, Menchik, and Blais (1976) modeled case openings and case closings separately and found that the New York City Home Relief and AFDC-Unemployed Father caseload significantly related to levels of unemployment, while they did not uncover the same significance for the regular AFDC caseload. Again, the significance of the unemployment variable is highly sensitive to the exclusion of other variables in the model. Intuitively, these findings made sense. Eligibility for the AFDC-UF program is dependent on recent employment experience, and general assistance supports unemployed families or individuals that are temporarily unable to find or hold a job. On the other hand, a mother with dependent children covered by the AFDC program may find herself without support from a spouse quite independently from changes in the economy.

Nevertheless, there was considerable dissatisfaction with the apparent lack of association between economic health of the nation and the AFDC caseload. The encouraging findings for the general assistance and AFDC-UF caseloads were offset by their negligible size and cost compared to the regular AFDC program. In response, an alternative version of the unemployment effect was advanced by Venti (1975) and Sumrall (1976). Their argument is that most unemployment data includes only those establishments covered by unemployment insurance, and welfare recipients tend not to work in those establishments. Secondly, they argue that "the unemployment rate may be too highly aggregated to proxy labor market conditions specific to the potential welfare population." (Sumrall, 1976, p. 11.) Models of Massachusetts, Georgia, Upstate New York, and Washington were designed to include benefit/wage, benefit-loss, and administrative variables in addition to a set of variables reflecting employment in welfare relevant industries--those with high-turnover employment or those requiring only low levels of skills training. They also include an agricultural employment variable and the unemployment rate for all industries. For every region modeled they find that one or more of the employment opportunity variables are significant, in addition to variables relating to benefit levels, tax rates, and administrative factors. (See Sumrall, 1976, Table 1.)

At the same time the Sumrall/Venti work was under way, Harrison and Rein (1976) also began to uncover relationships between unemployment and welfare that were stronger than identified in earlier models. The Department of Benefit Payments in California was sufficiently interested in the relationship between the AFDC rolls and the economy to fund a study by the Rand Corporation solely for the purpose of identifying and describing the direct relationship between work and welfare, if any. In answer to the question "does the AFDC caseload depend directly on the California economy?" the Rand authors give a cautious yes, but conclude that the relationship is really quite complicated and suggest, by implication, that a rather formidable modeling effort would be required to formally relate the welfare decision to changes in the health of regional economics. (See Abrahamse, 1976.)

In conclusion, there is increasing evidence that the job market does have a measurable effect on the welfare decision in spite of widespread concern that "welfare" is somehow a system quite apart from the ups and downs of the national economy. By its very design, the AFDC program was not intended to be primarily an unemployment insurance program, but clearly many of the factors that bring about eligibility for AFDC--desertion, loss of employment for women with children, and loss of nonearnings income sources--are likely to be on the rise in recessionary periods. The explosion of the AFDC caseload during the 1960s when the national economy was healthy was related primarily to factors other than unemployment or employment opportunities, but on the basis of existing research it is clear that the job market does affect the welfare decision and a healthy economy will be an essential ingredient to the nationwide reduction of welfare dependency.

Migration. If welfare eligible families respond to high benefit/wage ratios with higher rates of program participation, then many observers have suggested that states with high benefit levels probably attract poor families from low-benefit states. None of the studies on migration done since 1968 has found a strong link between state benefit levels and migration, but the analyses have not incorporated benefit-wage ratios. The best measures offered so far indicate that black migrants to a city are less likely to be poor or on welfare than black families born and raised in the largest cities (Long, 1974); and that new arrivals to New York City are *less* likely to go on welfare than those who have been in the City for several years (de Ferranti, 1974). Utilization of the welfare system appears to increase gradually the longer a family stays in New York City, suggesting a discouragement after arrival in the City rather than a motivation for moving to the City.

In a detailed study of Puerto Rican migration into New York, Maldonado (1976) concludes that high wage levels are even further enhanced by the welfare system "acting as an insurance against unavailability of jobs." Given that higher income states tend to have higher

benefit levels (Orr, 1976) it is difficult to separate the direct wage effect from benefit levels. On the other hand, Reischauer (1971) concluded that the patterns of black migration from the South, while primarily a function of labor market conditions, are significantly influenced by the welfare opportunities in the cities of destination.

Holmer carried out a thorough review of research on migration and the welfare decision and reached two major conclusions. First, welfare-induced migration has not been an important direct cause of the expansion of the AFDC rolls. Second, "migration behavior is shaped primarily by regional variations in labor market conditions and that differences in state AFDC policies have, at most, a minor influence on the residential location decisions of the poor." (Holmer, 1971, p. 33.) In effect, existing research suggests that job opportunities and wages dominate the interregional migration decision made by poor families.

Family Composition and Desertion

The welfare decision is affected by the size and composition of the eligible family. An extensive analysis of welfare participation rates and duration of dependency carried out for New York City throws considerable light on family structure as a factor influencing the welfare decision. (See deFerranti, 1974; and Rydell, 1974.) *First, families eligible for welfare where both parents are present (AFDC-UF and general assistance eligibility) have considerably lower propensities to turn to welfare than female-headed cases (AFDC eligibility).* Only 45 percent of eligible intact families were on welfare in New York City in 1970 compared to 83 percent of those families with an absent parent. These participation rates are comparable to recent figures for the national AFDC-UF and AFDC caseload.

Second, large families tend to have higher participation rates than small families. Only 30 percent of intact families with one or two children turned to welfare, while 60 percent of intact families with

five or more children were on the rolls in 1970.[1] (deFerranti, 1974.) For female-headed families the range in participation rates is narrow--from 78 percent for small families to 90 percent for large families.

Consistent with their higher propensity to go on welfare, AFDC cases in New York City had a longer median length of stay (2.0 years) than AFDC-Unemployed Father cases (.7 years). (Rydell, 1974.) AFDC cases with two or more children had a median length of stay of 2.5 years compared to 1.5 years for one child cases. Thus, the size and composition of families influence the dynamics of the welfare decision in much the way expected. Female-headed families have a higher propensity to go on welfare, and they stay on longer, than intact families. Larger families have higher propensities for dependency, and they stay dependent longer, than smaller families.

The high welfare participation rates of female-headed families have frequently raised the question of whether the current welfare system actually encourages family dissolution. At first glance there does not appear to be any evidence for this claim given that welfare eligible intact families generally have lower participation rates than eligible female-headed families, and if welfare was desired more intact families could simply choose to apply for AFDC-UF without desertion by the father. However, the same families could realize even more income by the father deserting, the mother applying for regular AFDC assistance, and the separate households sharing the combined income of welfare and whatever full-time or part-time work is available to the father. The availability of food stamps, Medicaid, and child care to the children on the AFDC case makes desertion even more financially attractive. A number of researchers have attempted to test the hypothesis that economic incentives contained in the AFDC program lead to more family dissolution than would occur without the program. A study by Honig

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[1] *Part* of the higher participation rate of larger families is caused by the AFDC benefit structure--more persons, more benefits. As was discussed above, higher benefit levels tend to result in higher participation rates.

(1974) tends to support the hypothesis. Honig isolates the independent effects of welfare on family splitting and on AFDC recipiency rates among female-headed families. After controlling for a number of relevant socioeconomic variables she finds that the size of the average AFDC benefit in forty-four metropolitan areas has a significant effect on the proportion of adult women who are heads of families and on the welfare participation rate of these families. While there are some methodological problems involved, her findings are supported by two other studies.

Bernstein and Meezan (1974) interviewed 451 welfare mothers in New York City and asked them whether the availability of welfare influenced their decision regarding separation from a husband or friend--14 percent said it did influence their decision. Because of the vagueness of response to the question by some mothers, the authors suggest that the "true" proportion of desertions caused by welfare is more than 14 percent. Their conclusion is that at least 75 percent of the mothers had relationships marked by such a high degree of tension that separation was either justified or that the choice was simply not their's to make. "While some of these intolerable relationships might not have broken up had it not been for the availability of welfare, it cannot be argued that their preservation would have been desirable for the participants, the children, or society." (Bernstein and Meezan, 1975, p. 100.)

Ross and Sawhill (1975) in a seminal book on female-headed families conclude that welfare benefit levels have a modest influence on the proportion of nonwhite women who head families with children. However, they feel that a number of underlying behavioral responses to welfare may be the cause, in addition to desertion. Other candidates offered include the bearing and keeping of illegitimate children; setting up of separate households by women who without welfare would have lived with relatives or friends; and the delay of remarriage. The authors feel that all of these behavior patterns are probably supported by the

availability of welfare, but that reform of the welfare system is not likely to dramatically reduce the trend toward female-headed families which has far broader origins than the availability of public assistance.

Attitudes Toward Dependency

One of the more perplexing aspects of the welfare decision is the apparent change in attitudes towards welfare that occurred in the late 1960s. Boland's definitive article on participation in the national AFDC program concludes that participation rates among eligible female-headed families increased from 63 to 91 percent between 1967 and 1970. (See Boland, 1973.) She attributes most of the massive growth of the rolls during this period to this increased rate of participation, with increases in grant levels (resulting in a larger pool of eligibles) contributing a much smaller share to the growth. Why did participation suddenly become virtually 100 percent after years of apparently low interest in welfare benefits?

A persuasive answer is that increased knowledge about the welfare system combined with a legitimatizing of dependency, both fostered by the welfare rights movement, resulted in an outpouring of applications by female-headed families. The national welfare rights movement made an across-the-board attempt to inform low income families of their rights to benefits under the welfare system, and to simplify an applications procedure that was historically tied to a rather cumbersome caseworker approach. In an eight month period during 1968 in New York City, Jackson and Johnson (1974) estimated that the AFDC participation rate rose from 53 to 62 percent. The increase was due largely to the direct effect of the welfare rights movement on applications and its indirect effects on lower closings and higher grant levels. Whether or not the shift in national participation rates was largely due to the welfare rights movement, most researchers agree that a dramatic change in response to the welfare system by eligible families occurred during the late 1960s.[1]

[1]Part of the response might have been related to the new availability of Medicaid-paid health care during the late 1960s. However, the major expansion of the Medicaid program did not occur until after 1970.

An answer to what really happened to cause the increase in participation of welfare eligible female-headed families during the late 1960s has become an issue with respect to the national AFDC-Unemployed Fathers program. Participation in the AFDC-UF program is estimated to be anywhere between 20 and 40 percent of all eligible families. (See Boland, 1973; Hollenbeck, 1975; Lidman, 1975; and Rein, M., 1972.) Some have argued that few families know they are eligible for the program, others that work tests and eligibility rules are sufficiently stringent to make the expected benefit level small and of short duration; and still others that welfare has a stigma for families with strong labor force contact, and that unless attitudes change participation rates will continue to be low.[1] Because AFDC-UF eligibility rules are so stringent, it could be that participation rates are off an order of magnitude because of overestimates of the eligible population. In any event, participation in the AFDC-UF program has been low since its inception in the early 1960s, and the rates remain low even during periods of economic recession.

The response of eligible families to program benefits have direct effects on program budgets. Because little is understood about why families use or do not use the AFDC-UF program, proposed changes to integrate AFDC-UF and the unemployment insurance (UI) system are going to be subject to widely varying estimates of cost. If the UF program continues to be funded separately from UI in DHEW, and is administered by local welfare agencies, the budgetary consequences of relaxing the work test, for example, might be quite small. However, if the program is operated through employment security offices of DOL, the attitudes of eligible families might change and a major increase in participation and cost could result--just because state employment service offices are associated with contributory benefit programs rather than welfare. Because attitudes of families eligible for AFDC-UF may be highly sensitive to the source of benefits and means

[1]The Rand Corporation is currently under contract to DHEW to assess which of these explanations is most appropriate and how policy changes in the AFDC-UF program would change participation.

for enforcement of eligibility rules, one new policy option may be considerably more costly than another, depending upon the organization of the program administration.

Administrative Factors

We turn now to an aspect of the welfare decision that falls outside of the control of the recipients--the setting and interpretation of administrative rules and regulations. Each state welfare department has an allowance schedule and benefit-loss rate that is set by legislation, but there are a series of deductibles, disregards, set asides, work tests, certification and recertification procedures, employment referral requirements, and employability definitions that offer a great deal of administrative discretion to local welfare agencies. Changes in these rules and regulations and the stringency with which they are enforced have a major impact on the welfare decision; the number of case openings, closings, and transfers; and consequently, caseload dynamics. Case dynamics are also influenced by the administrative problems of simply trying to keep track of welfare families once they start receiving assistance. Families move within and between welfare jurisdictions frequently without notice of their changed address. Cases may be closed and reopened within two or three months simply because of problems in tracking the location of families.

One analysis that relates administrative actions to case dynamics is by Rydell (1974) and Quint and Brown (1973) for the New York City caseload in 1972. They found that administrative factors were a major cause of case closings--but that many cases eventually reopened and continued to receive assistance because of administrative errors or misassessments. First, they looked at all AFDC case openings during 1972 and found that nearly half of the reasons were due to household changes (loss of father), 16 percent for unemployment or earnings loss reasons, and 17 percent for medical reasons--the type of factors we have covered above in discussing the welfare decision. (See Table 4.) However, another 20 percent of the openings were due to factors that suggest the case was on the rolls before and is being reopened without having lost its eligibility in the interim--these are contact reestablished,

Table 4

PERCENTAGE DISTRIBUTION OF AVERAGE CASE OPENINGS AND CLOSINGS PER MONTH, BY REASON, AFDC CASES IN NEW YORK CITY, 1972

Opening Reason	Percent of All Openings	Closing Reason	Percent of All Closings
Unemployment	13.4	Employment	11.4
Reduction in nonwage income	3.2	Increase in nonwage income	3.0
Medical	17.5	Death	0.2
Change in household composition	45.6	Change in household composition	8.5
Contact reestablished	7.7	Contact lost	35.3
Administrative	4.8	Administrative	17.5
Other	7.7	Other	24.0
Total all reasons	100.0	Total all reasons	100.0

SOURCE: Rydell, et al. (1974), Tables 5.6 and 5.7.

administrative, and other reasons. Cases that opened for the other reasons might also have been on welfare before but their closings probably resulted from a clear loss of eligibility. In contrast, over 17 percent of case closings are for administrative reasons, with another 35 percent for reasons of "contact lost." (See Table 4.) A lot of the contact lost activity is likely to be families who moved within or out of the city without any forwarding address. Over 75 percent of closing activity resulted from direct action by welfare offices that had no clear relationship to income gains or change in household composition.[1]

The researchers then measured the proportion of reopened cases in 1972 that were closed for what they called *spurious* reasons. Closings that resulted from error rather than from change in client need were defined as spurious closings. Operationally, a closing was called spurious if it ever reopened by reason of "reestablished contact," or if it reopened for administrative reasons within thirty days of closing. In both instances it was unlikely that a change in need ever occurred. During 1972, they found that 56 percent of closed cases that reopened within a month were spurious closings, and 42 percent of all closed cases reopened within eleven months were spurious closings. (See Table 5.) Rydell, Quint, and Brown conclude that a significant portion of short-run caseload dynamics is administratively induced--either through error or the difficulty of monitoring the frequent intra-city moves of low-income families.

An analysis of the eligibility control program in New York City by Lyon, et al. (1976) showed that a major decrease in the AFDC caseload from mid-1972 to early 1974 was attributable to a photo identification card and mail recertification program. Because of these two programs the caseload declined by 20,000 cases--a 6 percent decrease. Mailed requests to report to welfare centers for the photograph resulted in some confusion and frequently, a failure to report. Persons failing to report

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[1] National data on case closing (discontinuance) reasons suffers from the same problem of aggregation into uninterpretable categories. A study by Ketron, Inc. (1973) of a national AFDC survey for 1969-1970 indicates that over 40 percent of all closed cases in a year are for "other" reasons that cannot be related directly to a specific eligibility change or administrative action.

Table 5

REOPENINGS OF WELFARE CASES DUE TO SPURIOUS CLOSINGS, BY TIME SINCE CLOSING: NEW YORK CITY, 1972

Months Between Closing and Reopening	Reopenings of Cases Closed in 1972	Percent of Reopenings Due to Spurious Closings
Less than 1 month	8,451	68.1
1 month	14,005	55.6
2 months	5,455	21.7
3 months	2,857	10.3
4 months	1,867	7.8
5 to 11 months	4,106	2.9
Total within 11 months	36,741	41.6

SOURCE: Rydell, 1974, p. 68.

without cause were closed off the rolls. Individuals not responding by mail to the recertification program were given warning notices and if a response was still not forthcoming, the case was closed. The caseload declined simply because there was a higher monthly average of case closings than had ever been recorded. However, by mid- to late-1974 case reopenings averaged nearly three times what they had been before the eligibility control programs were launched, and by early 1975 the caseload was back to the level it was in mid-1972. The authors conclude that many eligible cases were being closed off the rolls in error as a result of the programs, and that they were reopening after a hiatus of one to two months.

Further evidence of the role of administrative discretion is provided by Wiseman (1976) in a study of the AFDC caseload in Alameda County California. Wiseman drew a random sample of AFDC cases on the rolls over a six year period from 1967 to 1972, and developed detailed dependency histories for each of the cases sampled. He modeled the effects on job taking of four different policy changes that had occurred in the treatment of earnings and other income when calculating grant levels. Rather than increasing the likelihood of job taking as expected, the policy changes had no observable impact on the work behavior of the case members. He suggests that the County partially offset the effects of the new policies throughout the study period by "steadily tightening treatment of work expenses." (Wiseman, 1976, p. 67.) In other words, while broad policy was being implemented to increase work effort, the County was tending to discourage job hunting by allowing fewer and lower levels of work expenses.

In summary, a significant portion of the welfare decision as reflected in case openings and closings is affected by administrative factors. After reviewing the welfare caseload turnover literature Friedman and Hausman (1975) conclude that "if turnover is so much a function of program characteristics, economic and administrative, then any particular findings on turnover (dynamics) should be interpreted as having applicability limited to the specific program studied." (Friedman and Hausman, 1975, p. 24.) They even go so far as to question whether

findings uncovered to date on the patterns of welfare dynamics can really be generalized to patterns that would occur if simplier grant schemes were implemented with less administrative discretion.

Our judgment is that administrative discretion does cause an important part of the dynamic behavior found in the AFDC caseload. The stringency with which rules and regulations are enforced can definitely affect the length of stay on the rolls in the short run (six months or less), but over periods of one year or more the research evidence supports the view that the welfare decision is made in ways that are consistent with broad policy variables like benefit levels and benefit-loss rates, and alternative income sources as reflected in wage rates and unemployment levels. The fact that the short-run forecasting of caseloads is confounded by sudden shifts in case openings and closings related to changing administrative procedures does not offset the evidence that welfare dependency is essentially an economic decision. The cost and caseload implications for new variations on the AFDC program can be estimated from the underlying behavior we find in the existing system(s). The wide variation in AFDC policy between states, in fact, provides an opportunity to estimate the impact of policies existing in some states on states without the policies. For example, the State of California has for years provided AFDC-UF coverage to families simultaneously receiving unemployment insurance coverage. Estimating the impact of the recent Corman bill on the national AFDC-UF caseload (permitting and requiring UI benefits be treated as nonwelfare income) will be greatly facilitated by California's long experience with an AFDC-UF program with just those features. This and similar policy options being considered for the AFDC-UF program (including mandatory state provision of UF benefits) can be evaluated directly from the experience of the existing AFDC program.

Furthermore, the evidence on the length of welfare dependency and permanent caseload turnover discussed earlier suggests that welfare dynamics is related to a much broader range of factors that affect the *income* dynamics of a family over time. We turn to these income dynamics issues in the next section, but recall that Rydell (1974)

found that nearly half of the one million cases on welfare in New York City between 1967 and 1972 represented permanent turnover of the caseload--i.e., they had replaced a case that had been on the rolls but left permanently. (See p. 11.) Also, Rein (1976) and Rydell (1974) found that between 40 and 50 percent of all families on welfare over six year periods were on the rolls continuously for one year or less. While erratic administrative policies may generate a pattern of intermittent dependency for one case, it's evident that welfare is used quite differently depending upon the financial, household composition, and health circumstances characterizing a family at a particular point in time. As a result, there is the wide but predictable range of dependency patterns shown earlier in Table 3.

EMPLOYABILITY AND INCOME

A substantial effort has been made at the federal, state, and local levels to determine the employability of welfare family members in order to encourage work effort. Employability has proved to be an elusive concept simply because objective measures do not reflect either the potential or motivation of welfare families for finding work. The analysis of welfare dynamics has shown that far more families on the welfare rolls are employable and receive earnings from employment over periods of one or two years or more than is reflected in point-in-time samples of the caseload. Nevertheless, the public cost of day care and related work expenses is so high for many mothers on the AFDC rolls that they may actually earn less than it takes to keep them employed.

One approach to identifying employables on the rolls is to include adult case members already or recently employed, plus those adult case members who head a family with one or no children under the age of six. Studies of the New York City caseload by Lyon, et al. (R-1485) and the California caseload by Abrahamse, et al. (forthcoming) have used this approach. In September 1972 a full 50 percent of AFDC and general assistance recipients between 18 and 64 in New York City were found to be employable by this method, even though only 8 percent of

the adult recipients were working and reporting earned income in the study month. Similarly for California, 60 percent of AFDC family heads in 1973 had no children under six or had current or recent work experience. This is a broad-brush approach to identifying employable welfare recipients, but it is generally consistent with the target population of the Work Incentive Program. To show how quickly the employability picture narrows if crude potential measures are incorporated, the Abrahamse study found that only 23 percent of AFDC heads in California had no children under six, and either recent work experience or *some* work experience, a high school degree, and in a prime age bracket for employment. In other words, the employable welfare population varies widely in numbers depending upon the purpose of program administrators. If they want to know how many welfare families might have a chance--no matter how small--of taking a job and reducing or eliminating their dependency the broader definition can be used. If they want to target staff and related employment support measures on families with higher probabilities of employment, the narrower definition is probably more appropriate. The Work Incentive Program is likely to be more effective in job placements, for example, if it targeted on a narrower definition of employability.

An alternative approach is to identify the proportion of the caseload that would be capable of supporting itself independently of welfare given wage levels that are commensurate with their education and occupation. Hausman (1969) found that 40 percent of AFDC adult recipients could support themselves independently of welfare *if* they had a job, but Warren and Berkowitz (1969) found this figure to be less than 20 percent for female family heads on welfare in California. These findings were based on case behavior before the implementation of the monthly disregard of $30 and one-third on earned income. Lyon, et al. (R-1485) concluded that the wage rate paid to welfare recipients placed in jobs by the New York State Employment Service was not sufficiently high to eliminate dependency for most of those placed, although the placements did reduce the amount of the public assistance check. Findings about the relatively low attractiveness of wages compared to welfare payments are strengthened even more by the availability of multiple welfare benefits.

What, then, is the evidence about the attachment of welfare mothers and fathers to the labor force over time compared to their apparent employability at a point-in-time? Some of the best research to date on the income dynamics of *welfare* families has been done by Martin Rein using the University of Michigan's Panel Study of Income Dynamics (PSID). In a report entitled *Sources of Family Income and the Determinants of Welfare* (Rainwater and Rein, 1976) the authors identify female-headed families that were on welfare at least once over a five year period from 1967 to 1971. Some of the time over the five years there may have been a spouse present. First, the authors found that in 1972 41 percent of the female family heads were employed (they were not necessarily on welfare at the time of the 1972 interview), but that 69 percent were employed at least once during the five year period.

Second they found that female-headed families have much larger portions of their income from earnings over the five year period than is the case when they are on the rolls. Fifty percent of all income over the five years received by adult women with children living in female-headed households came from earnings, while only 24 percent of 1967 income came from earnings for those women on welfare in 1967. (See Table 6.) The authors note that "female-headed families who received welfare at least once in the five years, but not during 1967, had an income package much like that of female-headed families that never received welfare." (See Rainwater and Rein, 1976.) Their general conclusion is that earnings play a major role in the long-term income package of families ever on welfare, even though earnings are less important at the time welfare is received. (See Table 6.)

The authors carry their analysis of income/welfare dynamics further and examine the relative importance of family structure, the labor market, and the welfare system to the likelihood of receiving welfare during the five years.

> "The results clearly show that when we hold all other factors constant, family structure and labor market factors are about equally important in accounting for the years spent on welfare (from zero to five years). Within our labor market variables the likelihood of being employed and the number of hours worked, rather than wage levels, appear to play a more significant

Table 6

DISTRIBUTION OF INCOME BY SOURCE, 1967 TO 1971 AND 1967, FOR WOMEN AGED 24 TO 54 LIVING IN FEMALE-HEADED FAMILIES WITH CHILDREN[a]

Sources of Income	Income from 1967 to 1971 (Percent)	Income in 1967	
		On Welfare in 1967 (Percent)	Off Welfare in 1967 (Percent)
Head's earnings	31.3	12.2	49.2
Spouse's earnings	3.9	--	--
Other earners	14.8	12.1	21.9
Assets	4.4	0.5	7.3
Private transfers	6.1	13.0	8.6
Welfare	29.0	55.7	--
Work-related benefits	6.5	3.9	12.6
Food stamps	4.0	2.6	0.4
Total	100.0	100.0	100.0

SOURCE: Tables 15 and 19, Rainwater and Rein (1975) from the Panel Study of Income Dynamics, using sample of U.S. population.

NOTE: Sample size is 523 for all women in female-headed families that were ever on welfare.

[a]The women had children in at least one of the five years from 1967 to 1972 and were on welfare in at least one of the five years.

> role in accounting for years on welfare. Those variables that *attempt* to measure welfare benefits and access to welfare do not appear to play as important a role in determining welfare status as do family structure and labor markets." (Italics mine.) (Rainwater and Rein, 1967, Chapter 7, p. 17.)

The Rainwater/Rein work again shows the importance of underlying economic variables to the welfare decision, and the usefulness of tracking the income and behavior of welfare families over time to understand how welfare fits into an overall package of family income.

Levy (1976) has done an extensive analysis of the same data file (PSID) to see how much movement there is by families in and out of poverty, rather than welfare. His findings are broadly consistent with those of Rainwater, Rein, and Rydell for the welfare population. Levy identified a sample of people who were below the poverty line in 1967 and then tracked their income for the next six years to see how many stayed or moved above the line. He found that 47 percent remained poor through most of the subsequent six years; 26 percent moved out of poverty for five or six of the following six years; and 27 percent moved out of poverty for roughly half of the time between 1967 and 1973. Levy's analysis dispels the image of poverty as a permanent status for families, just as the work of Rein, Rydell, and Boskin and Nold does for welfare dependency.

EMPLOYMENT AND TRAINING PROGRAMS

How much of the dynamic behavior of the poverty and welfare population is attributable to the numerous employment and training programs funded by federal, state, and local governments? The paper by Levitan in this series suggests that employment programs impact only modestly on the decision to leave welfare, and that job training programs benefit those who are most likely to find jobs anyway. Goldstein (1972) carried out an extensive review of job training programs for both welfare and poverty target populations and found some evidence that trainees had higher job placement rates and higher wages than control groups, but the findings were frequently inconsistent from study to study, positive effects were often small, and methodological problems made firm conclusions impossible. Studies of the AFDC population that have findings generally

consistent with these have been completed for the states of Florida, Michigan, and Minnesota (Institute for Interdisciplinary Studies, 1972); New York City (Lyon, et al., forthcoming); and California (Wiseman, 1976), among others. In sum, there is little evidence that the effectiveness of job training and employment programs have been the source of the dynamic patterns uncovered in studies of the welfare population.

The dynamics of dependency are only affected, however, when the chance of a case closing is increased by an employment program. A welfare recipient may be helped in finding a job, but still continue to be on the rolls with a somewhat lower assistance check. Wiseman distinguished between higher chances of a case termination and higher chances of taking a job when assessing the impact of employment services for AFDC cases in Alameda County, California. He found that employment services did not significantly increase the likelihood of welfare termination, but they did increase the likelihood of employment. (Wiseman, 1976, p. 68.) Thus, employment programs may, at best, decrease the level of public assistance payments while the duration of stay is apparently unaffected.

Rydell, et al. (1974) found that the proportion of long-term AFDC cases in New York City with employment income (7 percent) was just the same as for cases on the rolls two years or less. In fact, an even higher fraction of long-term general assistance cases had employment income (16 percent) than short-term cases (7 percent). They conclude that long-term dependency is as compatible with employment experience as is short-term dependency--many jobs simply do not provide sufficient income to eliminate dependency. "Partial or low-wage employment is not necessarily a stepping-stone to self-sufficiency, but is compatible with long-term dependence on welfare assistance." (Rydell, et al., 1974, p. 51.) After comparing a number of case characteristics (category of assistance, income sources, case size, employability, age of payee) with duration of stay and finding no one case type was completely associated with one type of case history, the authors conclude:

> "*At the current state of knowledge about welfare dependency, chance events play a large part in determining whether a welfare case is a short-term or a long-term one.* One can only talk of tendencies, or probabilities, that a case with given characteristics will have a certain type of welfare history." (Rydell, et al., 1974, p. 52.)

In addition, it is our assessment that employment and training programs have had a negligible effect on determining whether a case has short-term or long-term dependency.

CASE BEHAVIOR AND LENGTH OF DEPENDENCY

The single most important and recurring theme in discussions of welfare policy is the impact of cash payments on work incentives. Benefit levels, benefit-loss rates, and employment programs have all been designed to encourage and cajole welfare recipients into employment--or, at least not discourage employment by heavily taxing the income received from a job. As we have seen, there is considerable evidence that in general welfare families respond to the incentives as intended. In recent years, however, another aspect of the incentive issue has been raised that may prove to be equally important to the design of strategies for reducing work disincentives. It may be that families become more accustomed to a life of welfare dependency as each month passes, and are less responsive to work incentives after a year or more of dependency than they are when first turning to public assistance. Rydell has formalized this phenomenon into what he calls the "settling-in" effect--welfare recipients may become used to dependency and more resistent to leaving the longer they are on the rolls. In effect, the behavior of welfare recipients may be conditioned by the length of time on the rolls. An earlier version of the settling-in phenomenon was an argument that welfare resulted in intergenerational dependency;[1] but, this version suggests that dependency on welfare strengthens within the life of one case.

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[1] See Greenleigh Associates, Inc., 1969.

There has not been a unambiguous test of the hypothesis that welfare cases settle in dependency, but both Rydell, et al., (1974) and Ketron, Incorporated, (1973 and 1974) present findings that are at least *consistent* with a settling-in phenomenon. They both use the concept of a case closing rate and calculate closing rates for periods of six months, one year, and two years after a cohort of cases has opened onto the rolls. If closing rates drop the longer a group of similar cases has been on the rolls, then there is some evidence that cases "settle" into dependency.

Rydell found that for all categories of assistance (AFDC; AFDC-UF; general assistance; Aid to the Disabled, Aged, and Blind [now SSI]) in New York City closing rates for a group of cases opening onto the rolls at the same time decrease with case age. For example, AFDC cases with two or more children have a closing rate of 4.4 percent three months after opening, but for those cases that remain on the rolls from three and one-half to five years the closing rate drops to 1.2 percent. In other words, the chance that an AFDC case will close right after opening is nearly four times higher than the chance after three and one-half years of dependency. Rydell found that using case age intervals of three months, six months, one year, one and one-half to three years, and three and one-half to five years closing rates consistently drop with case age.

Similar findings have been presented in two separate reports by Ketron, Incorporated using the national AFDC surveys for 1969, 1971, and 1973. They disaggregate case characteristics by age, sex, race, and education of an AFDC payee (a considerably greater disaggregation than that possible in the New York City data used by Rydell) and conclude that cases "exhibit the tendency to remain on the rolls longer as the duration of case (age) increases." (Ketron, Inc., 1974, p. 5.)

Since the Rand/Rydell and Ketron, Incorporated studies have been published there has been considerable discussion and debate over the interpretation of decreasing closing rates with case age. (So far no written rebuttal of the two reports has been published.)[1] Critics argue

[1]The first presentation of the Rand/Rydell settling-in hypothesis was in December 1973 at a Welfare Research Conference in New York City sponsored by Administrator Jule Sugarman of the Human Resources Administration. It was subsequently presented at the December 1975 Dallas meetings of the American Economic Association. (See Lyon, Rydell, and Menchik, 1975.)

that there are a number of alternative hypotheses that are consistent with case closing rates declining with case age. One hypothesis is that two kinds of cases open onto the rolls--one type that will stay only a short time (movers) and another type that will stay a long time (stayers). Declining closing rates would also occur if this hypothesis were correct, because cases in the low closing rate group stay on welfare longer than cases in the high closing rate group. To date there has been no additional research on case behavior that identifies and tests alternative hypotheses on how families adopt to welfare over time.[1] Until that research is done, Rydell felt comfortable with the conclusion that "there is currently no evidence to contradict the hypothesis that welfare cases become increasingly dependent on welfare the longer they stay on welfare." (Rydell, et al., 1974, p. 33.)

The notion that welfare cases may adjust to dependency and become less responsive to work incentives over time has important consequences for national income maintenance policy. Discussions of the New Jersey negative income tax experiment have emphasized that the brief duration of the project simply could not account for the long-term adaptive behavior of participant families. (See Aaron, 1975.) The findings that male participants did not make a significant withdrawal of work effort may not hold over a longer period of support. The policy options available to protect the economy from increasing program participation levels and gradual withdrawal from the work force have not been clearly identified for the reform proposals under discussion to date. It may be that benefit levels and tax rates are inadequate policy tools by themselves. However, if stringent work and income eligibility tests are to be required, the administrative bureaucracy might be every bit as cumbersome, costly, and inequitable as the current AFDC system. (See W. J. Cohen, et al., 1976.)

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[1] M. Wiseman and F. Levy at the University of California, Berkeley, do have some unpublished findings that number of months on welfare was insignificant in predicting closing rates for the Alameda County caseload. For a description of the model, see Wiseman, 70, 1976.

IMPLICATIONS FOR WELFARE POLICY

The evidence from research on welfare dynamics has mixed implications for policy reform. On the one hand welfare recipients clearly respond in rational ways to the benefit levels and benefit-loss rates built into federal and state AFDC and general assistance programs--higher benefits result in more participation; higher tax rates, less work effort. Further, the welfare system performs an important temporary income maintenance function. Forty to fifty percent of all families who turn to welfare stay on the rolls for one year or less; and less than a third of the average welfare family's income comes from public assistance when totaled over a period of five or more years. In other words, the majority of recipients use public assistance for income support in much the way other temporary support programs like unemployment insurance and workmen's compensation are used. Modifications to the means-tested programs are likely to produce responses by eligible families that are consistent with the behavior uncovered under existing programs.

On the other hand, research findings from the existing welfare system have only limited transferability for describing behavior under a universal guaranteed income plan. Participation in a guaranteed income plan would be inclusive of nearly all low-income families, and the cost of participation in terms of administrative screening, income audits, periodic recertification, and employability determination is likely, by design, to be considerably lower. It cannot be accurately predicted whether labor force withdrawal and/or work disincentives would be greater under a guaranteed income plan than under AFDC. The strong role of caseworker eligibility determination and management probably accounts for some of the dynamic patterns uncovered in the AFDC program, although researchers have uncovered little direct effect on overall dependency patterns from eligibility control and employment programs. The fact that each state welfare program lends itself to a somewhat different model of caseload behavior suggests that a unified national plan would have quite different impacts in different parts of the country--those impacts can only be partially estimated from existing research.

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